

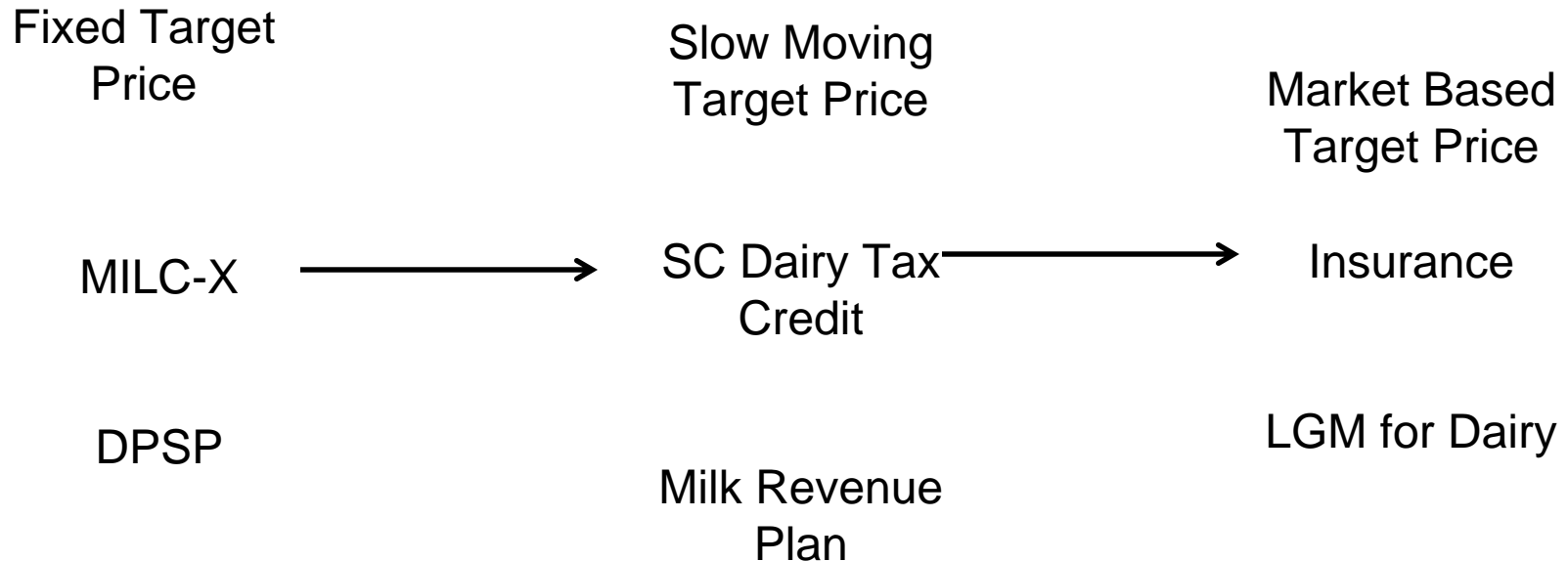
Livestock Gross Margin (LGM) for Dairy

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Iowa Agricultural Insurance Innovations

Public Policy Revenue Support



What is LGM Dairy?

- Newly improved dairy insurance program run through the U.S. crop insurance program
- Provides protection against unexpected declines in gross margin (market value of milk minus feed costs) on target quantity of marketed milk
- Uses adjusted futures prices to determine the expected gross margin and the actual gross margin.
- Adjustments to futures prices are state-and- month-specific basis levels
- The price the producer receives at the local market is not used.

Causes of Loss Covered

- LGM for Dairy covers the difference between the gross margin guarantee and the actual gross margin.
- LGM for Dairy does not insure against death loss or any other cause of production loss or damage to the producer's dairy cattle.

Eligible States

Any producer who milks cows in the states of:

- Colorado
- Illinois
- Indiana
- Iowa
- Kansas
- Michigan
- Minnesota
- Missouri
- Montana
- Nebraska
- Nevada
- North Dakota
- Ohio
- Oklahoma
- South Dakota
- Texas
- Utah
- West Virginia
- Wisconsin
- Wyoming

New Eligible States

Any producer who milks cows in the states of:

- Connecticut
- Delaware
- Maine
- Massachusetts
- New Hampshire
- New Jersey
- New York
- Pennsylvania
- Rhode Island
- Vermont
- Arizona

Dairy Gross Margin

- $\text{Projected Margin} = \text{Projected All Milk Price} - \text{Projected Feed Costs}$
- $\text{Projected All Milk Price} = \text{CME Futures Price} + \text{State Milk Basis}$
- $\text{Projected Feed Costs} = \text{Amount of corn} * (\text{CBOT Corn Price} + \text{State Corn Basis}) + \text{Amount of soybean meal} * \text{CBOT Soymeal Price}$

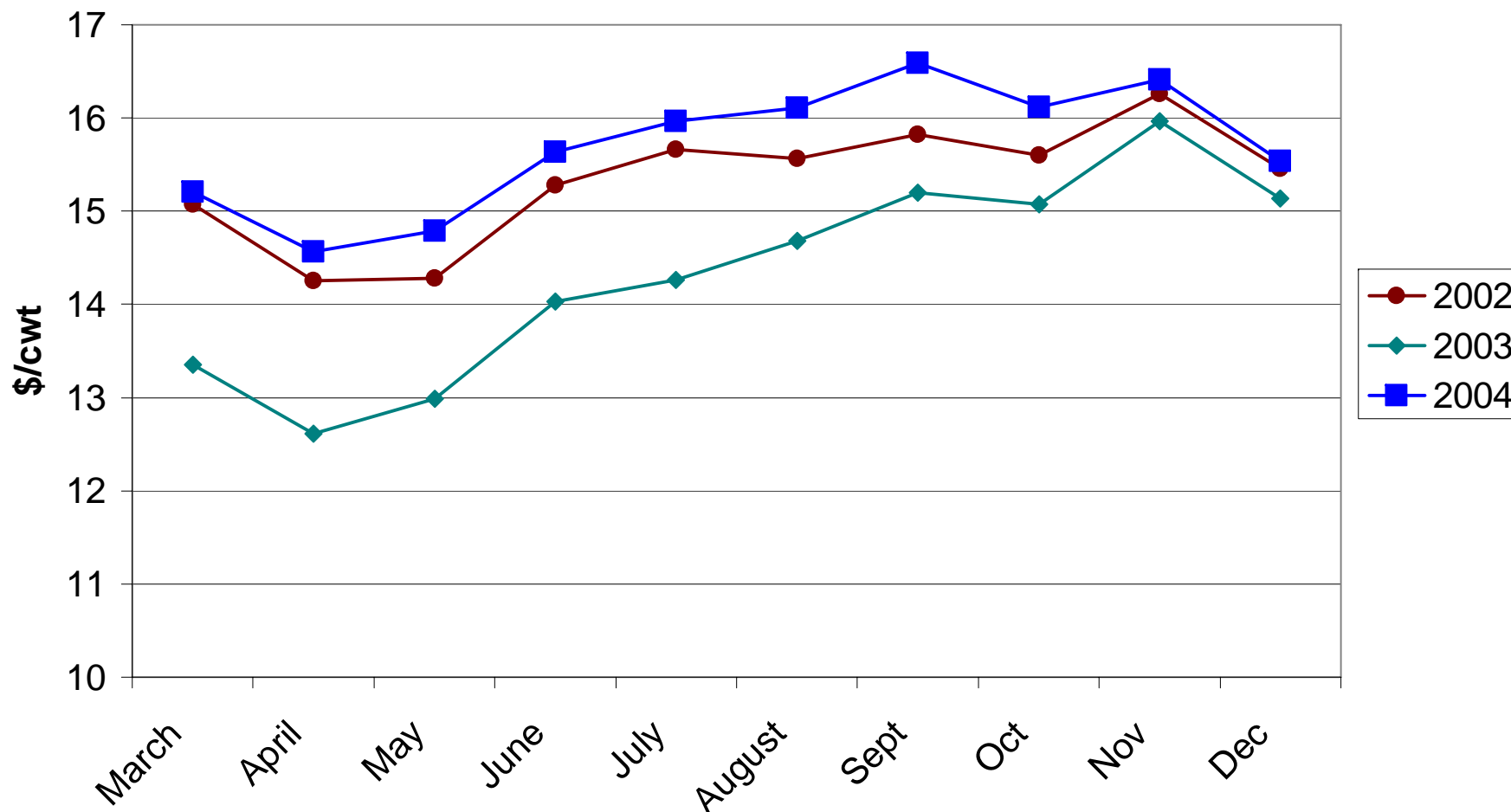
Sales Period

- LGM for Dairy will be sold on the third to last business day of each month. The sales period begins as soon as the Risk Management Agency (RMA) validates the data submitted by the developer after the close of markets on the last day of the price discovery period.
- The sales period ends at 9:00 AM the following day.
- Farmers can

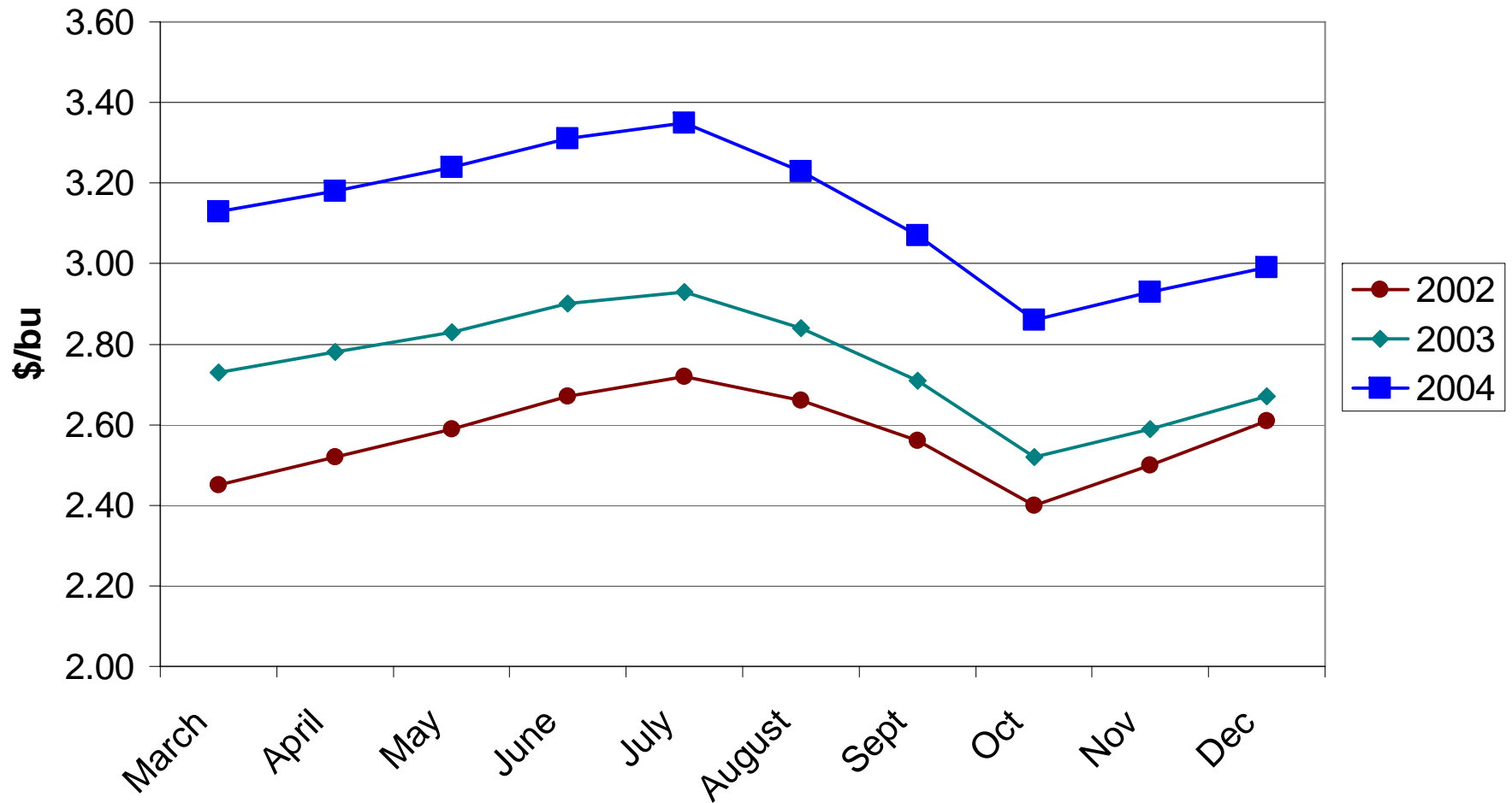
Insurance Period

- There are twelve insurance periods in each calendar year. Each insurance period runs for 11 months.
- For the first month of any insurance period, no cattle can be insured.
- Coverage begins one full calendar month following the sales closing date,
 - For example, the insurance period for the January 31 sales closing date contains the months of February (milk not insurable), March, April, May, June, July, August, September, October, November, and December.

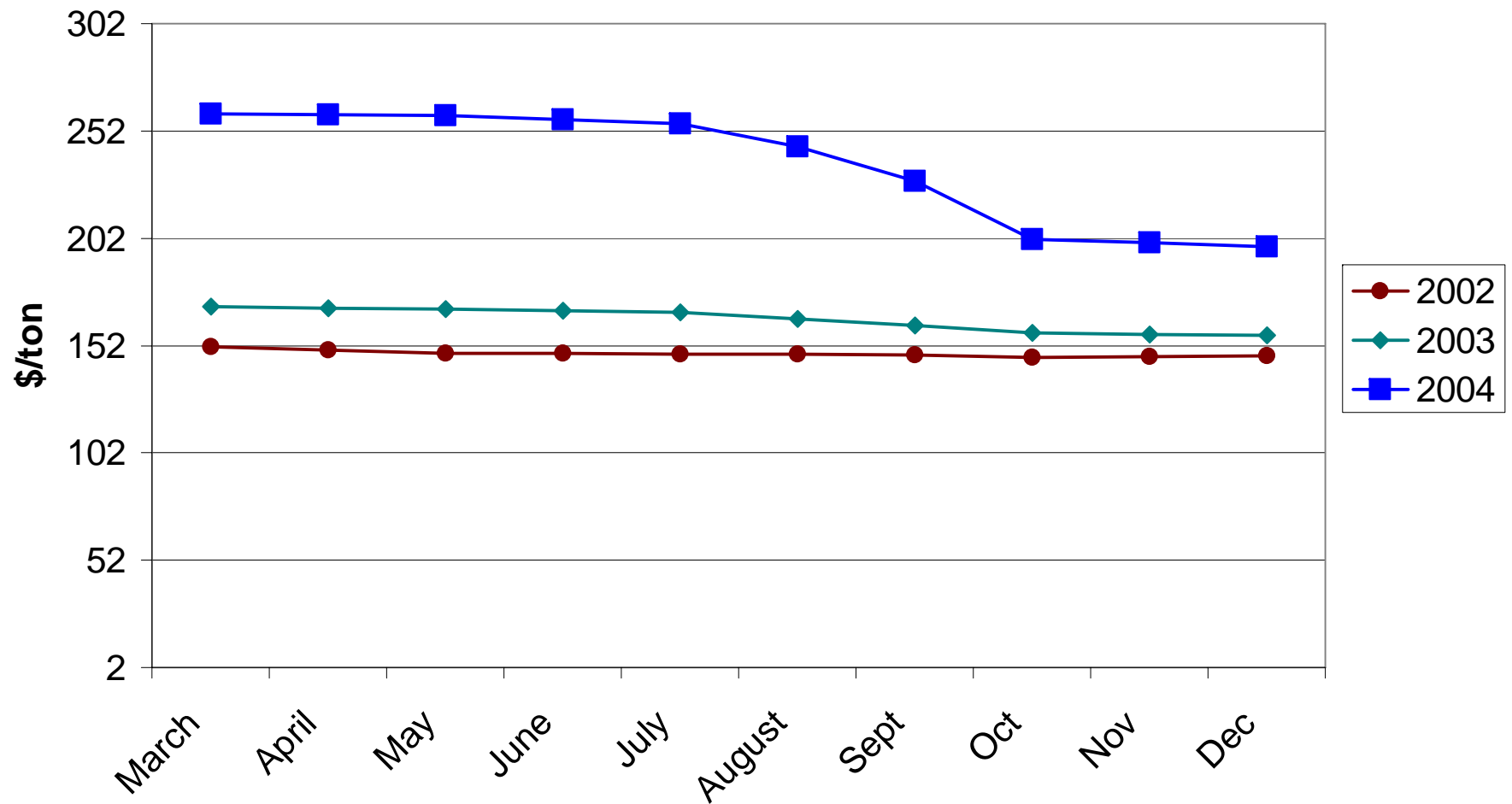
Projected LGM All-Milk Prices for January Sales Date



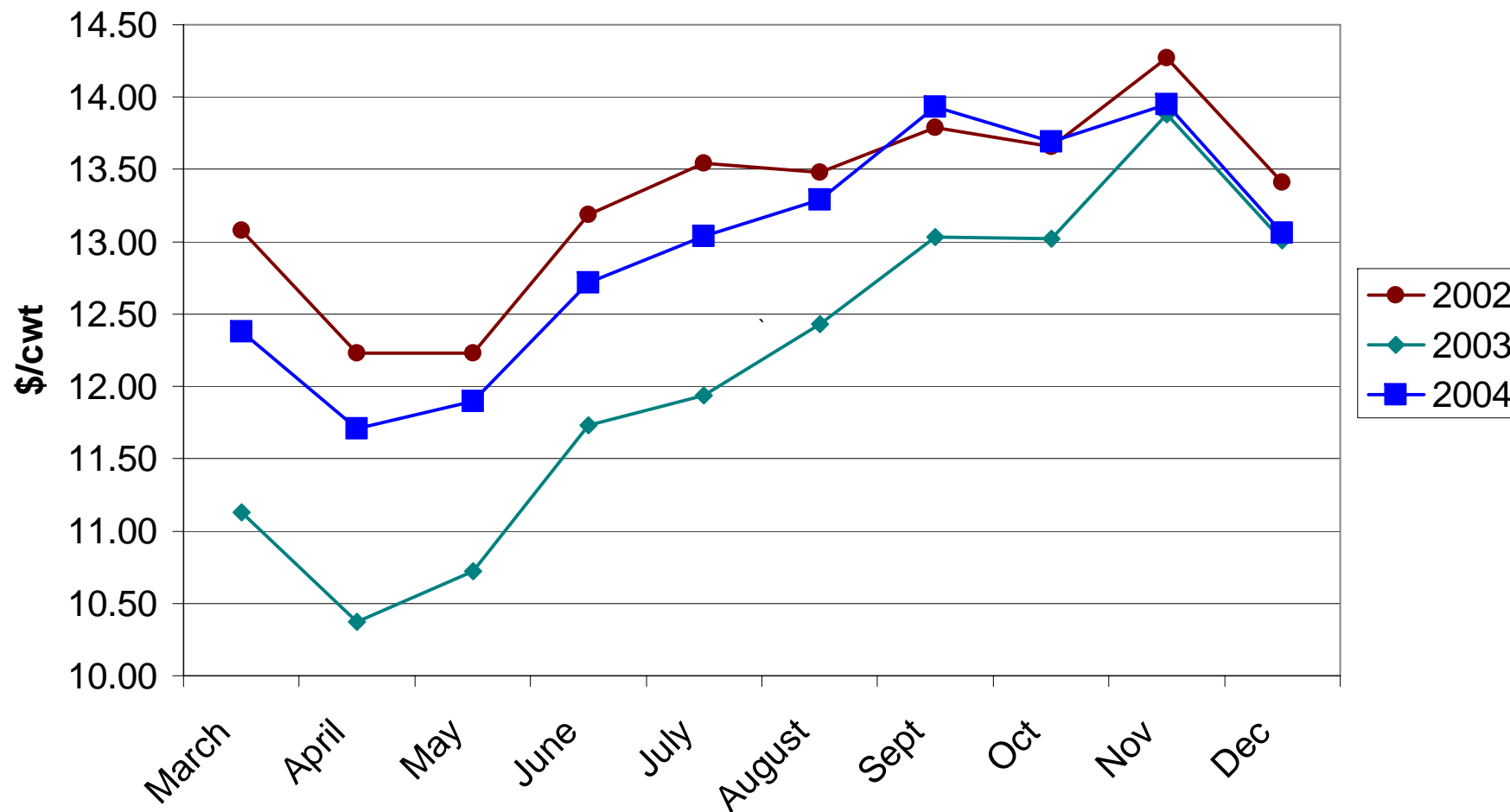
Projected LGM Corn Prices for January Sales Date



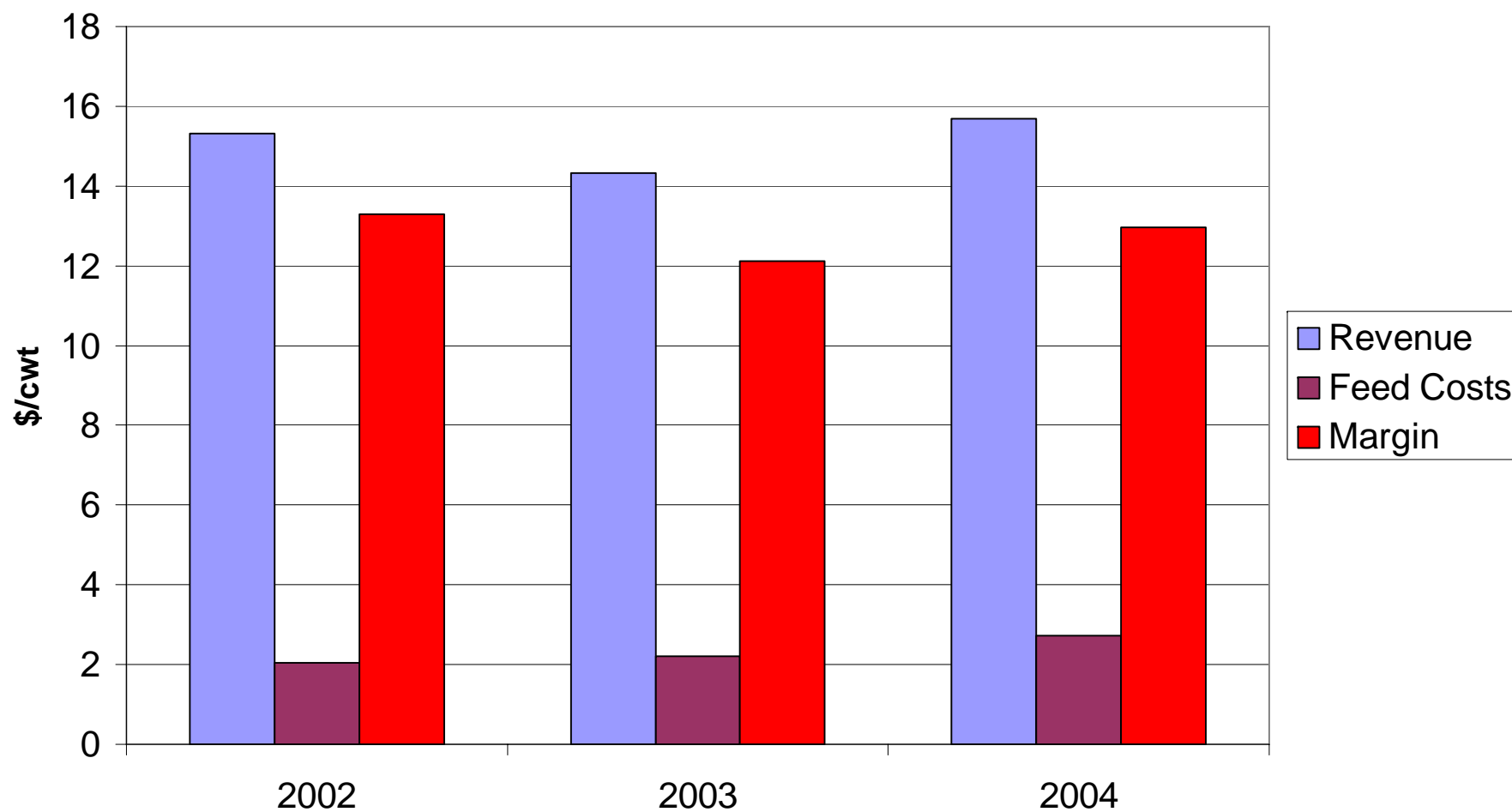
Projected LGM Soymeal Prices for January Sales Date



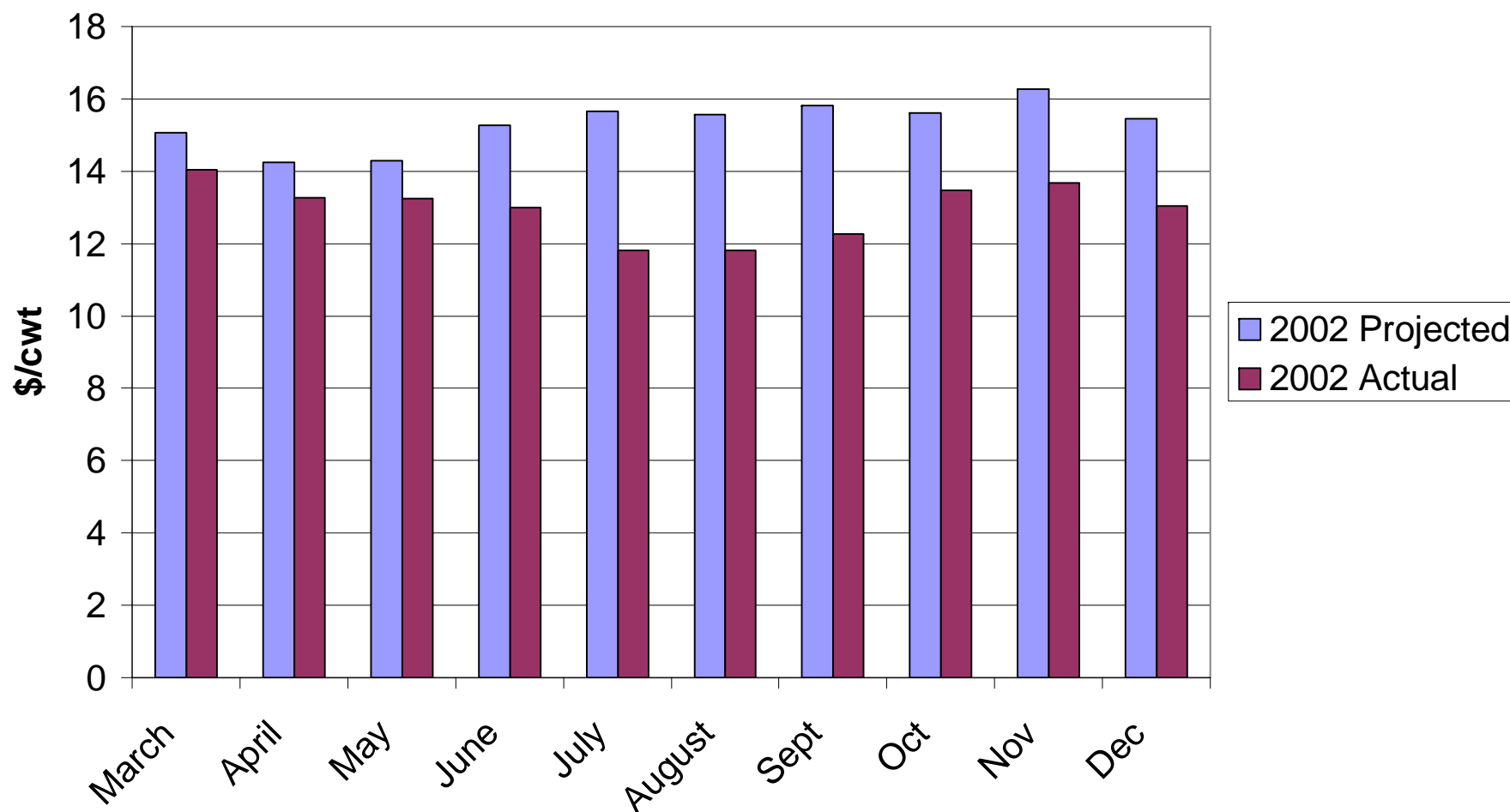
Projected LGM Margin for January Sales Date



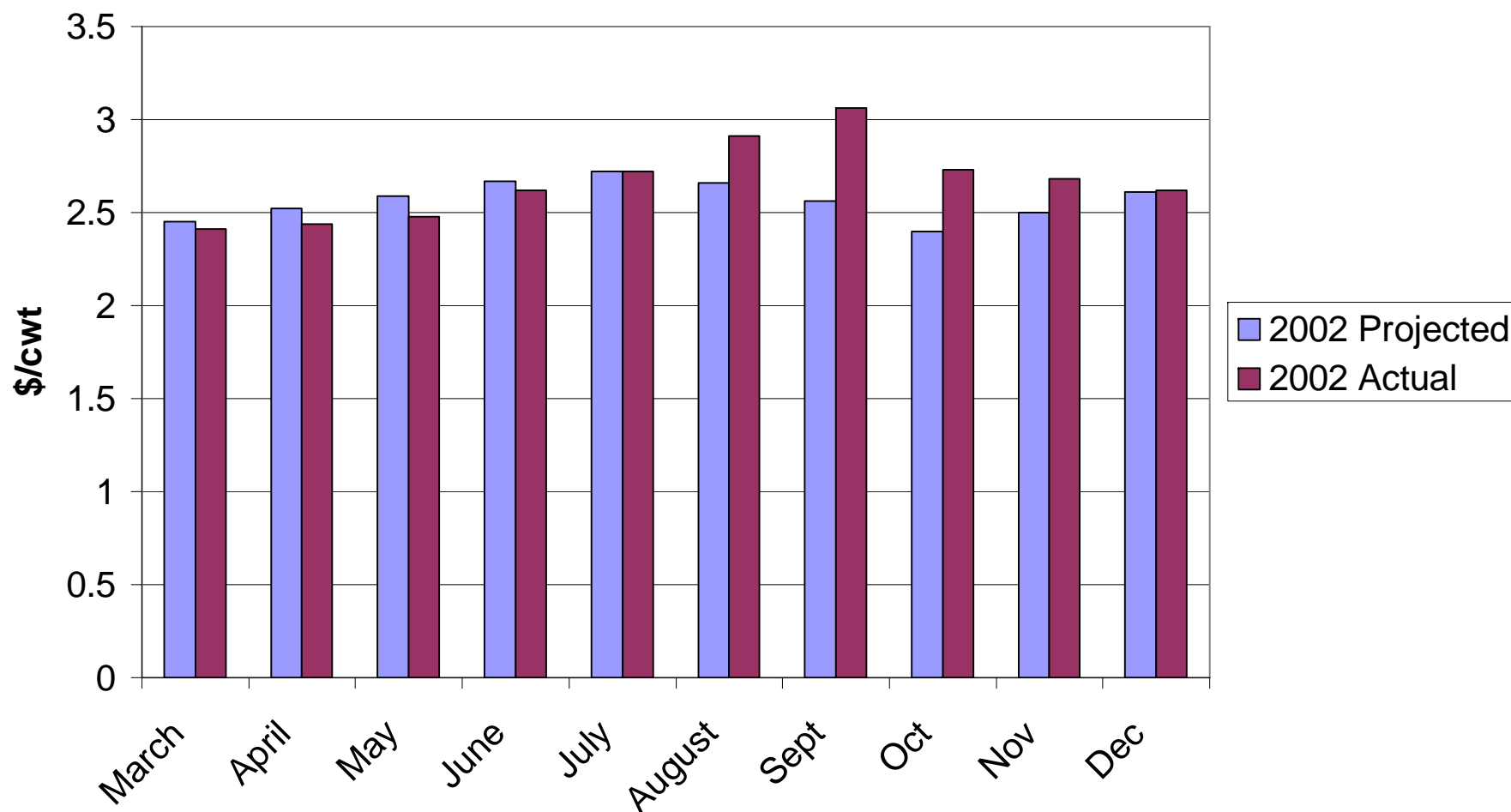
Average Projected Revenue, Feed Costs, and Margin



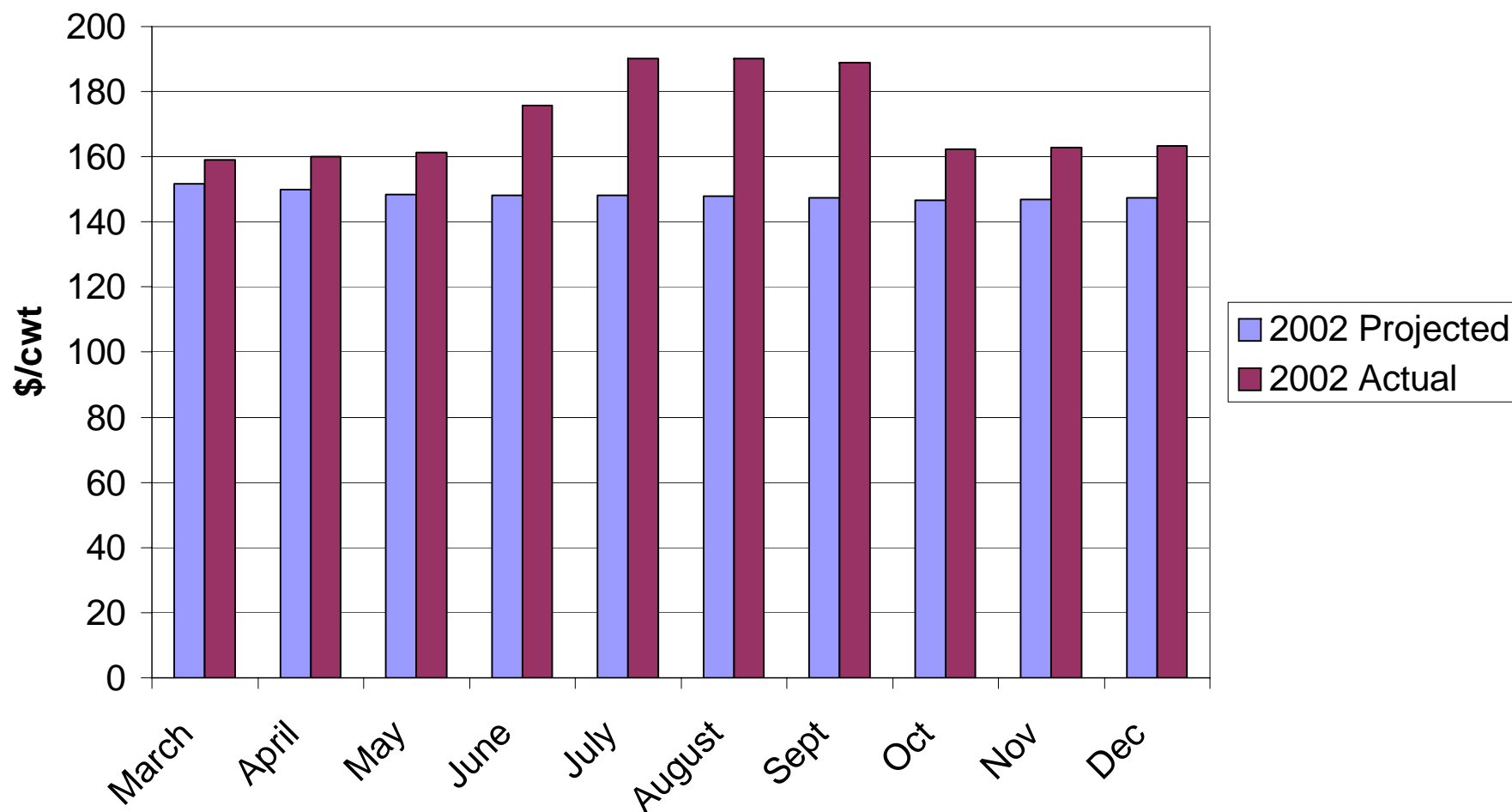
Comparison of Projected and Actual Milk Prices in 2002



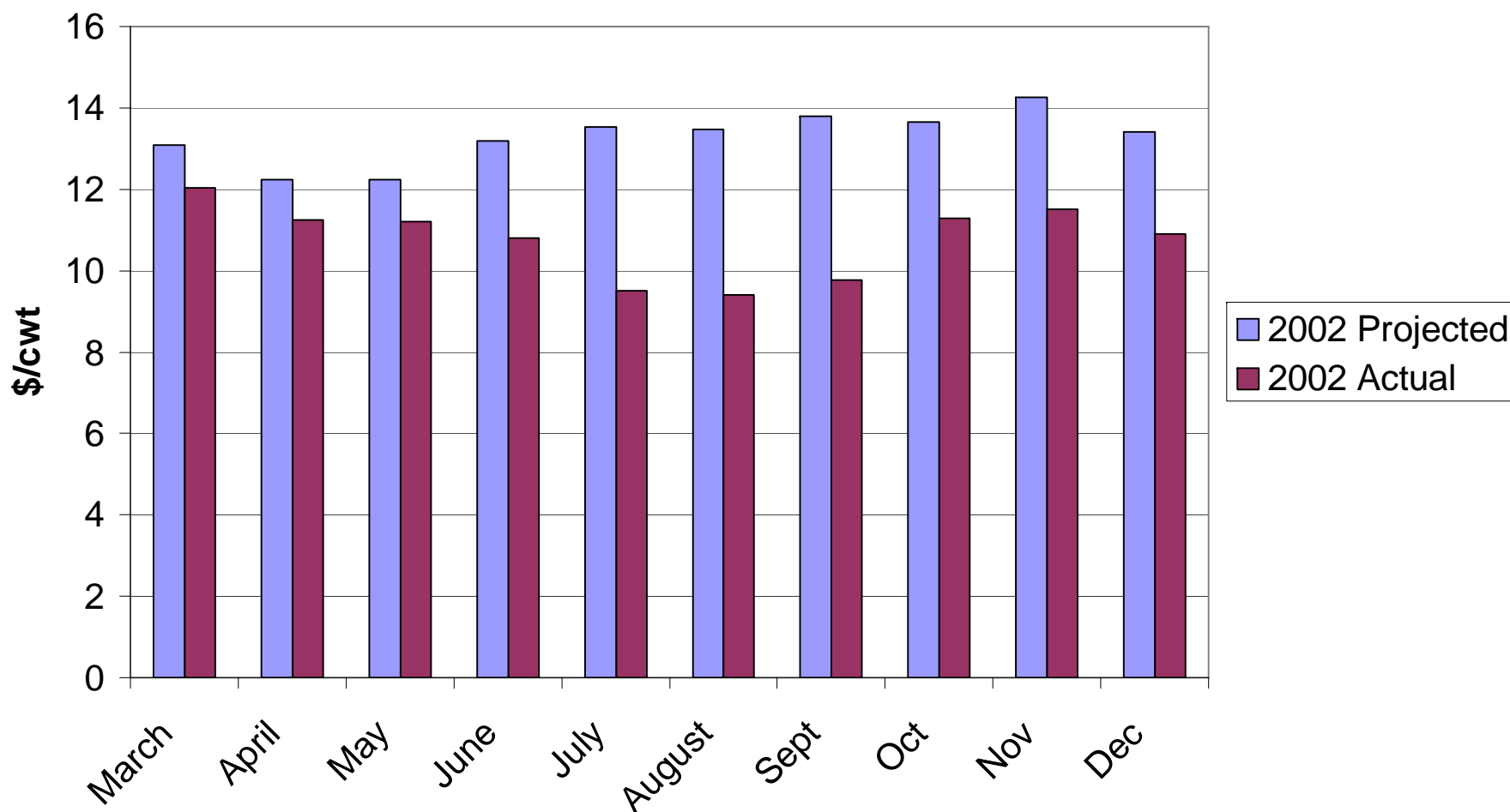
Comparison of Projected and Actual Corn Prices in 2002



Comparison of Projected and Actual Soymeal Prices in 2002



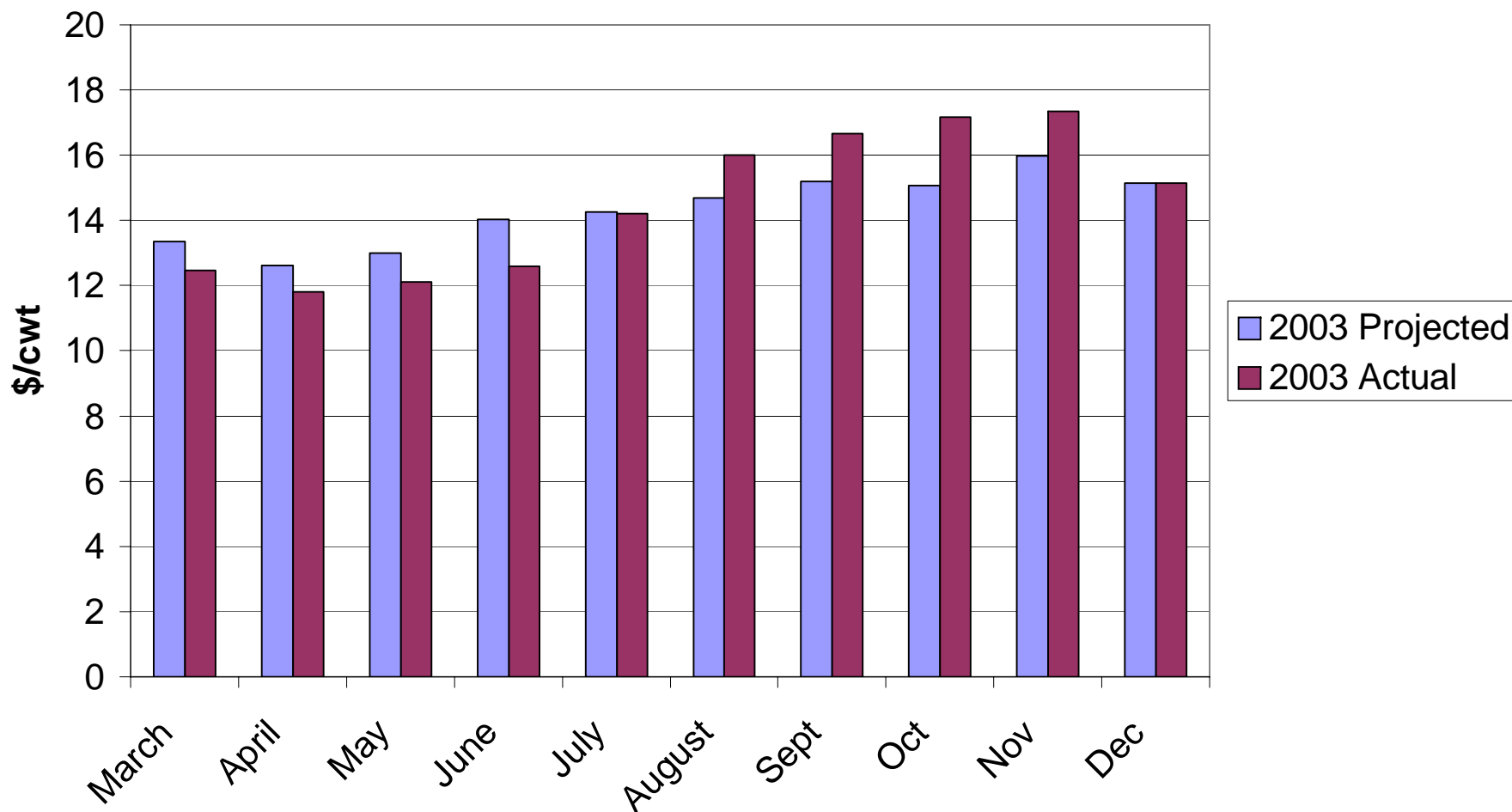
Comparison of Projected and Actual Margin in 2002



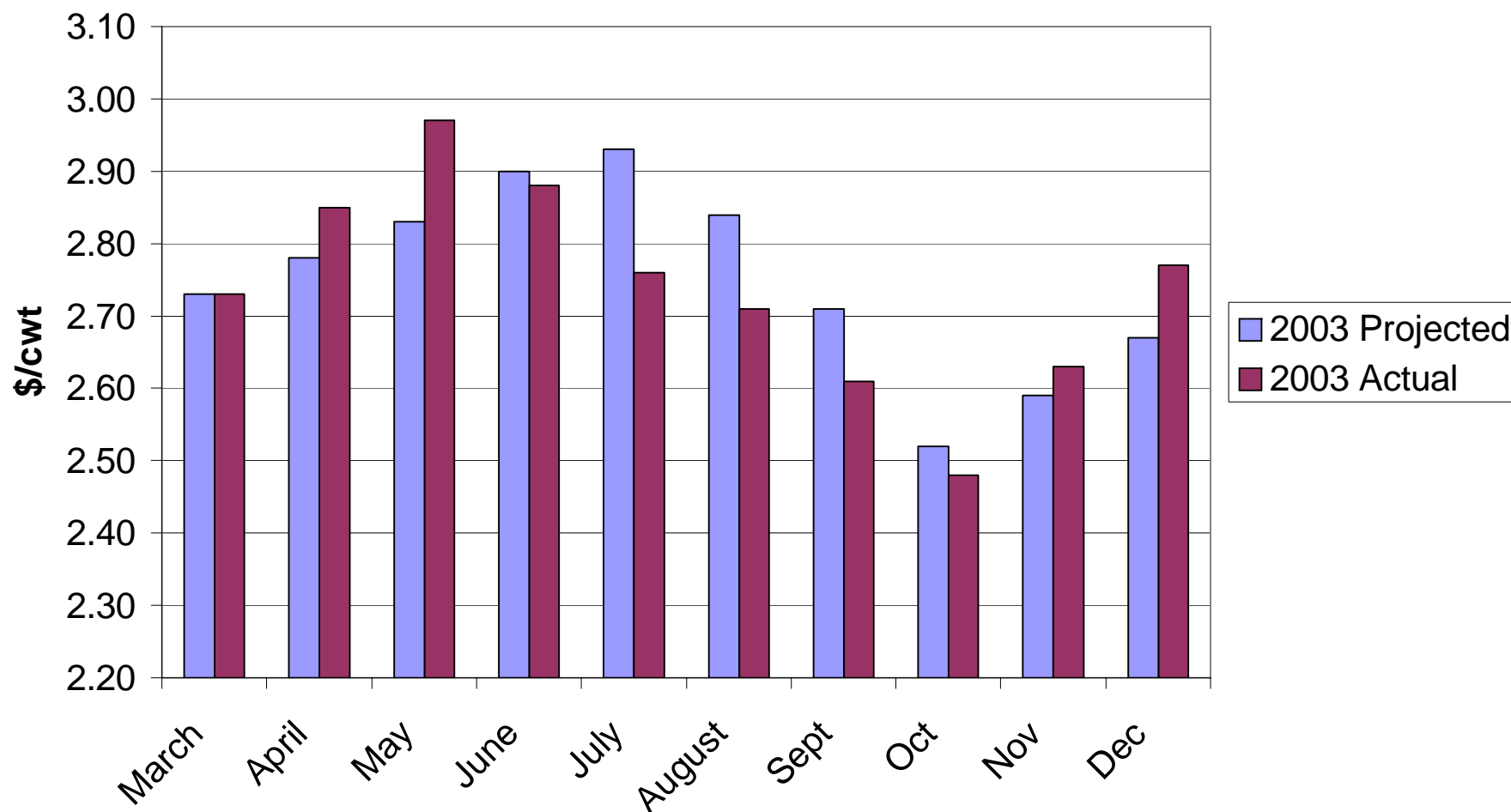
Indemnity in 2002

- LGM would have paid out \$2.52 per insured hundredweight of milk if milk had been insured each month of the sales period

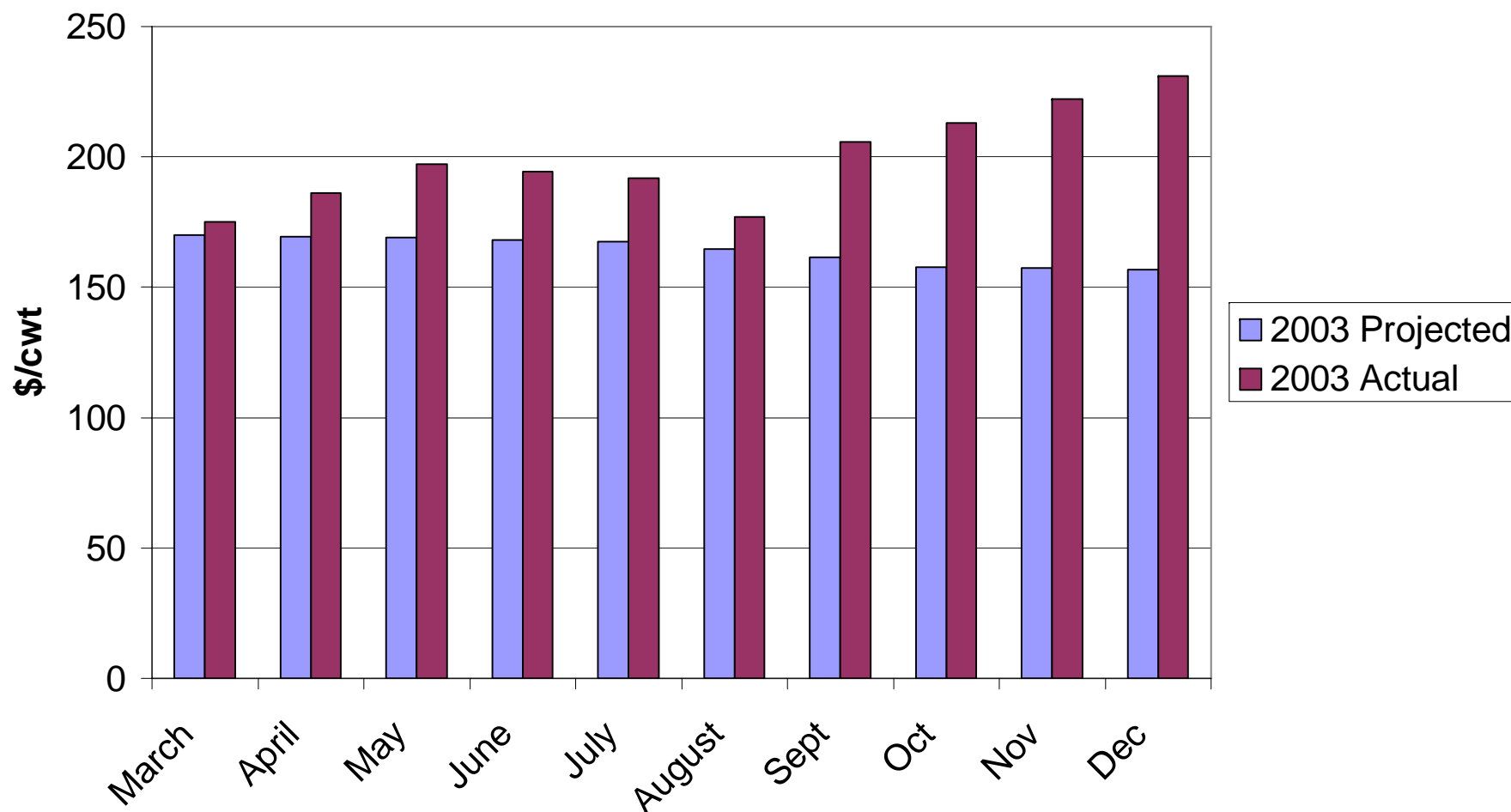
Comparison of Projected and Actual Milk Prices in 2003



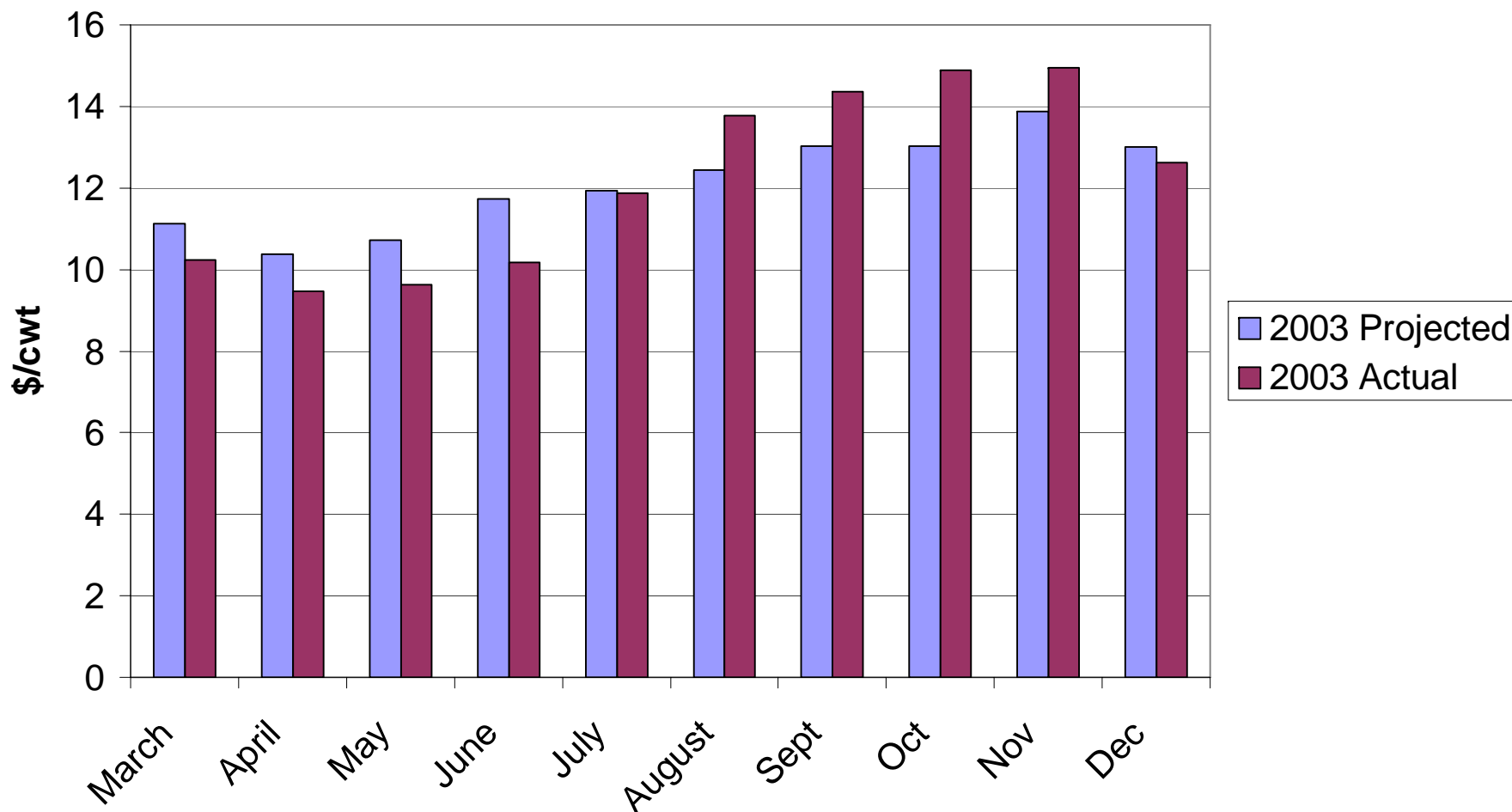
Comparison of Projected and Actual Corn Prices in 2003



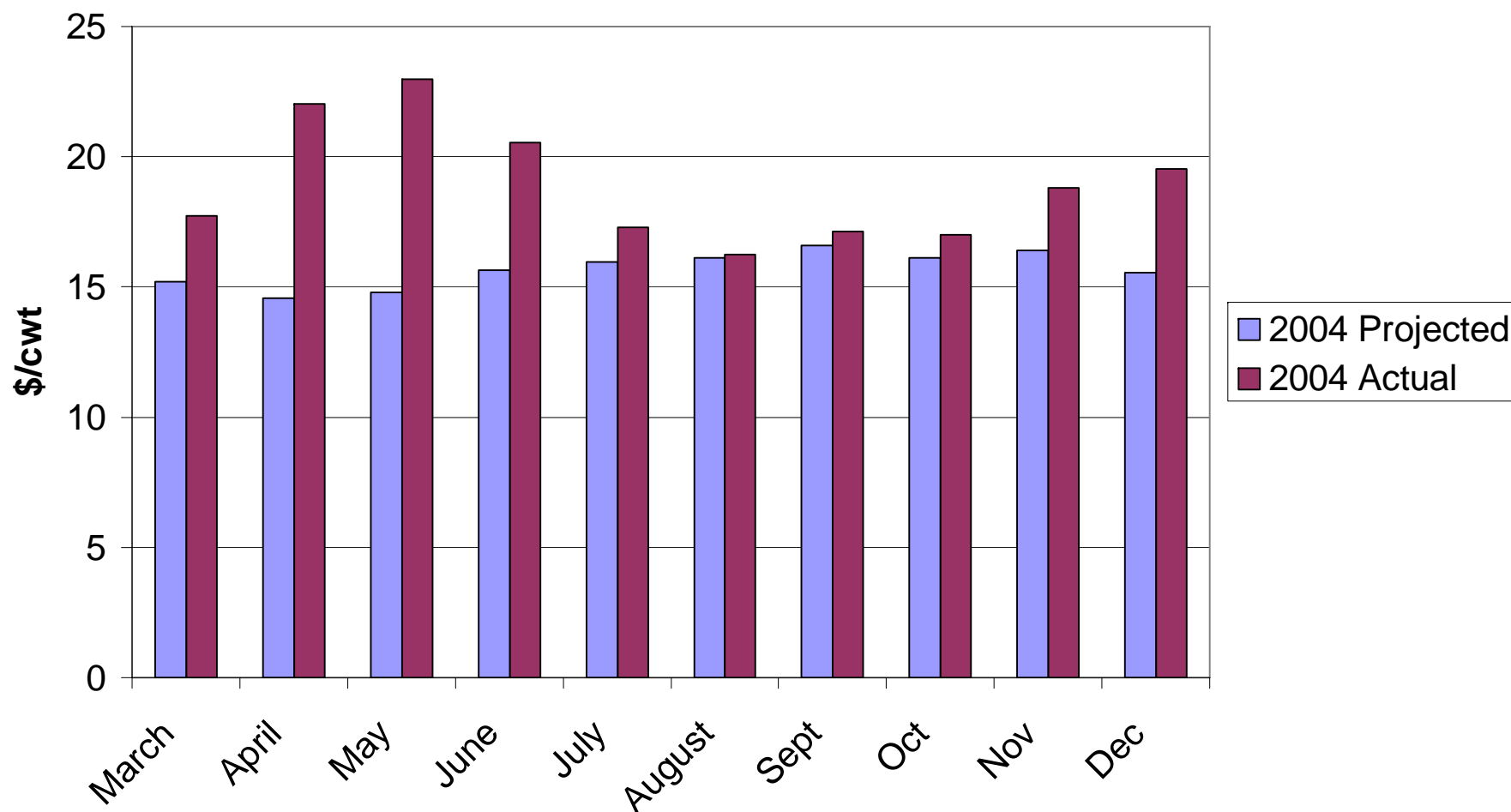
Comparison of Projected and Actual Soymeal Prices in 2003



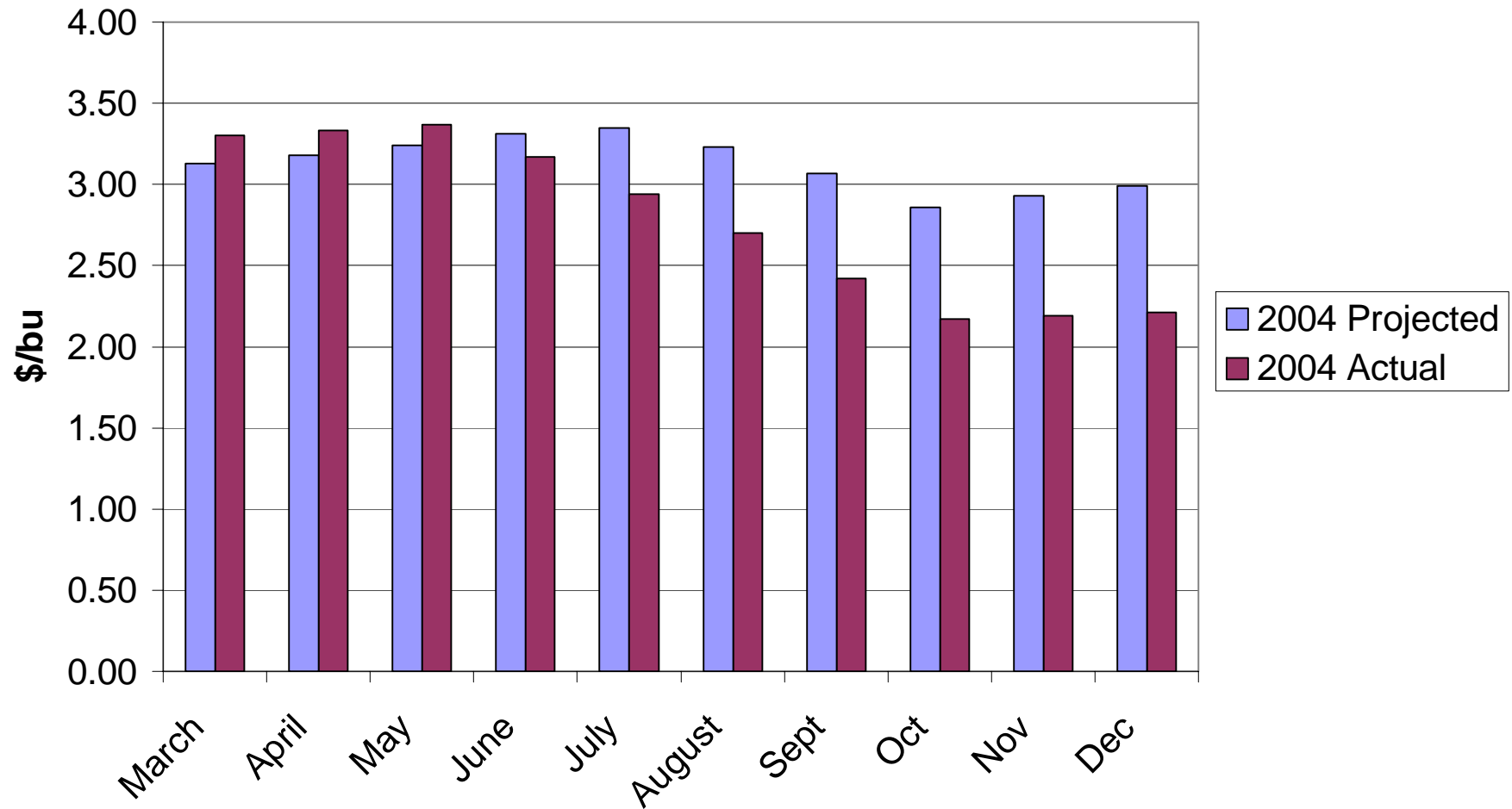
Comparison of Projected and Actual Margins in 2003



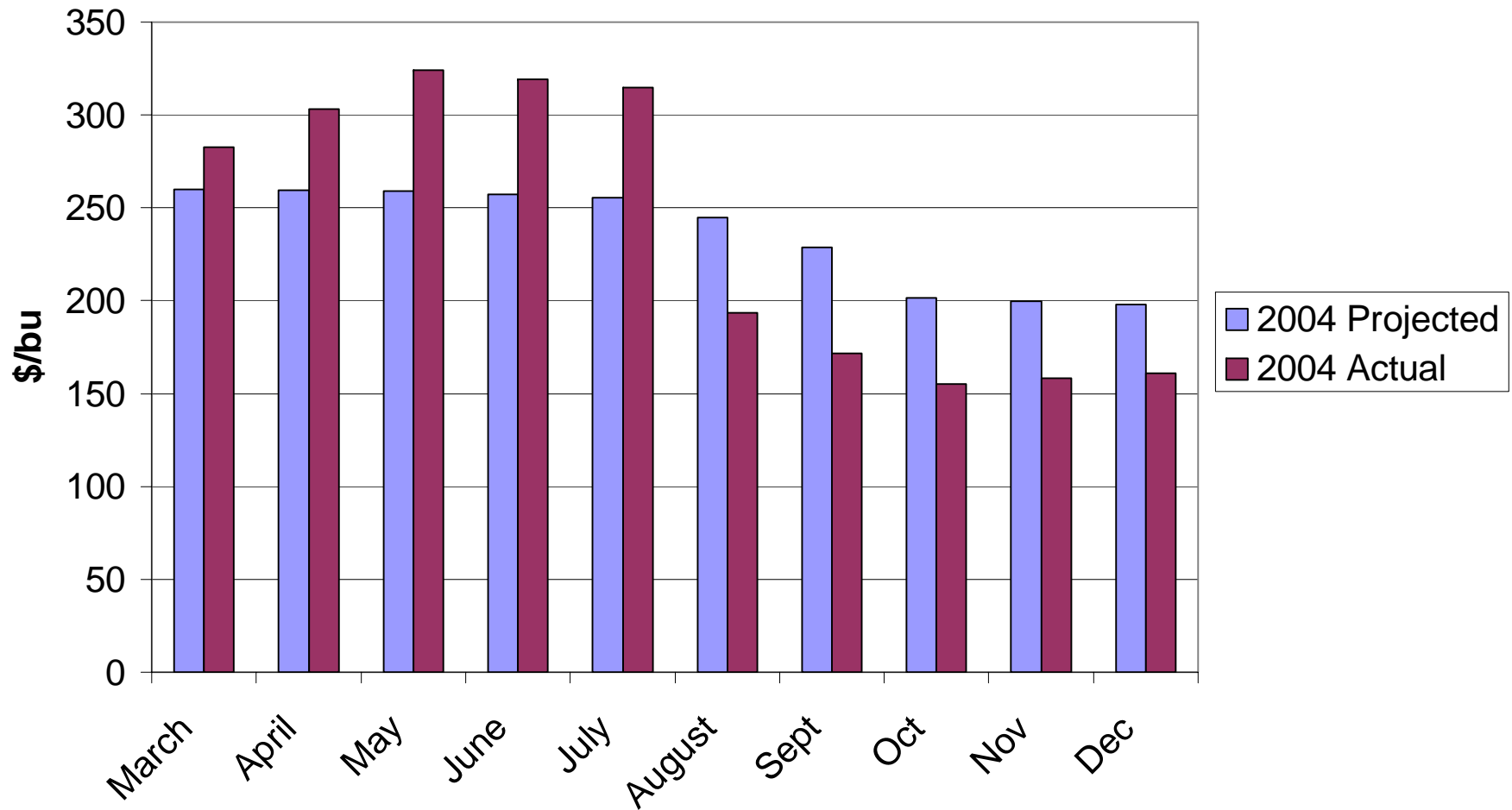
Comparison of Projected and Actual Milk Prices in 2004



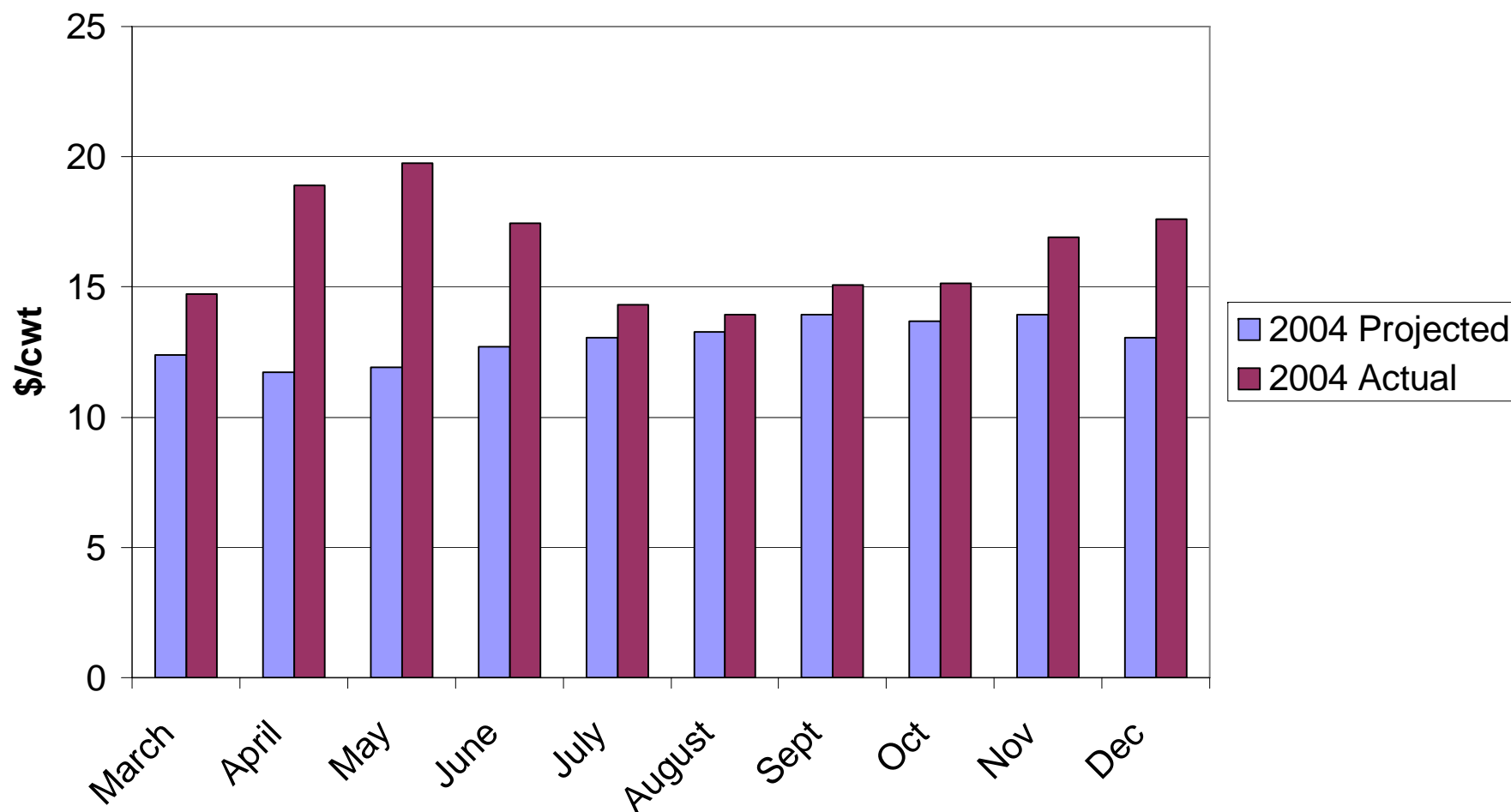
Comparison of Projected and Actual Corn Prices in 2004



Comparison of Projected and Actual Soymeal Prices in 2004



Comparison of Projected and Actual Margins in 2004



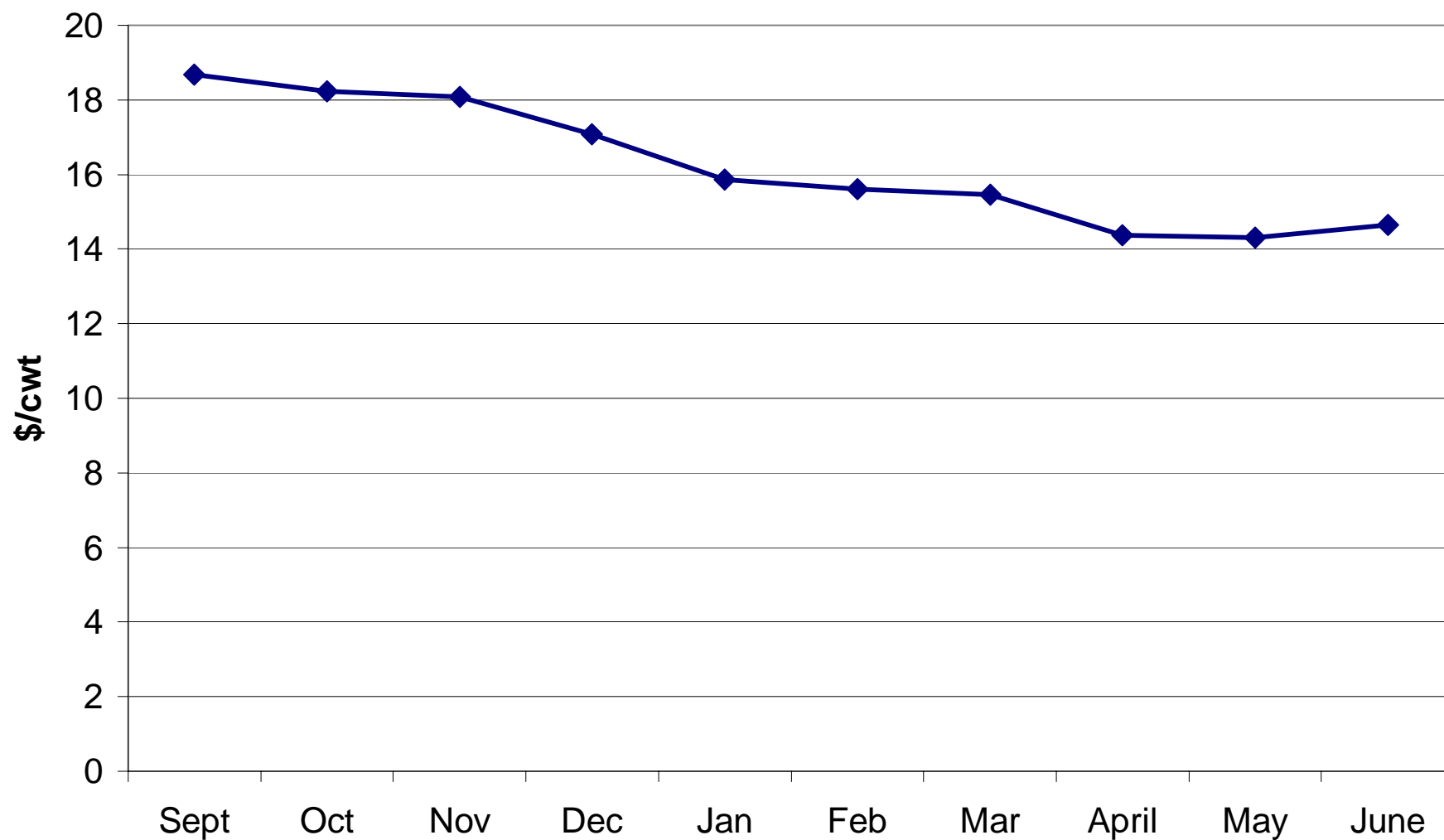
How Much Does LGM for Dairy Cost?

- Premiums are set so that the farmer gets out what he puts in over the long haul
 - In times of high price volatility, premiums will be high
 - Farmers who insure 10 months together will pay less than farmers who insure month to month
 - Farmers who insure 100% of their margin will pay more than those who take a deductible

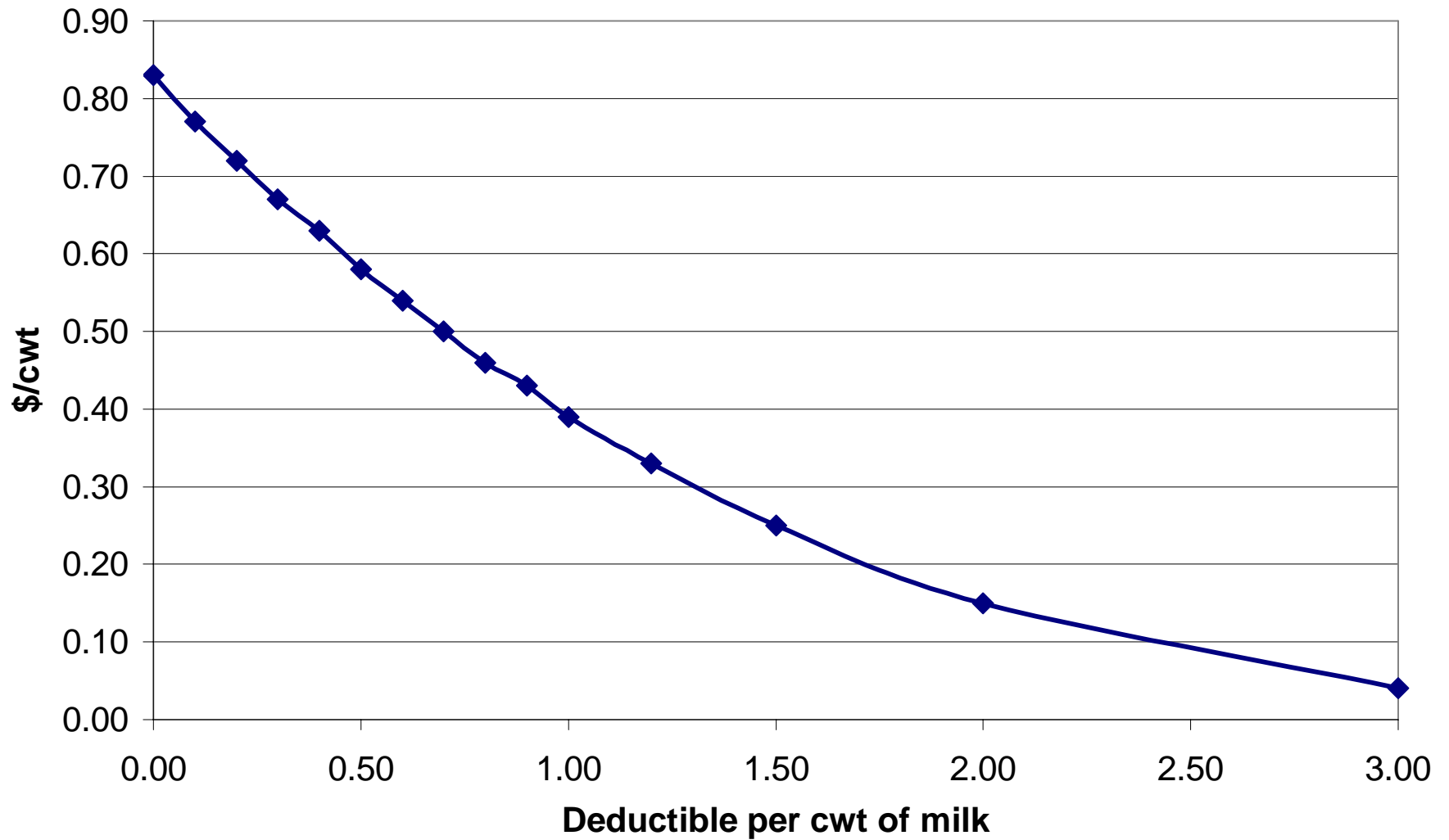
Example Farm

- 100 milking cow dairy in Massachusetts
- 18,000 pounds of milk per cow per year
- Even production each month (1500 cwt)
- Buys LGM in July 2007 for insurance period August to June, 2008
- 9.4 bushels of corn fed per month
- 7.7 tons of soybean meal fed per month

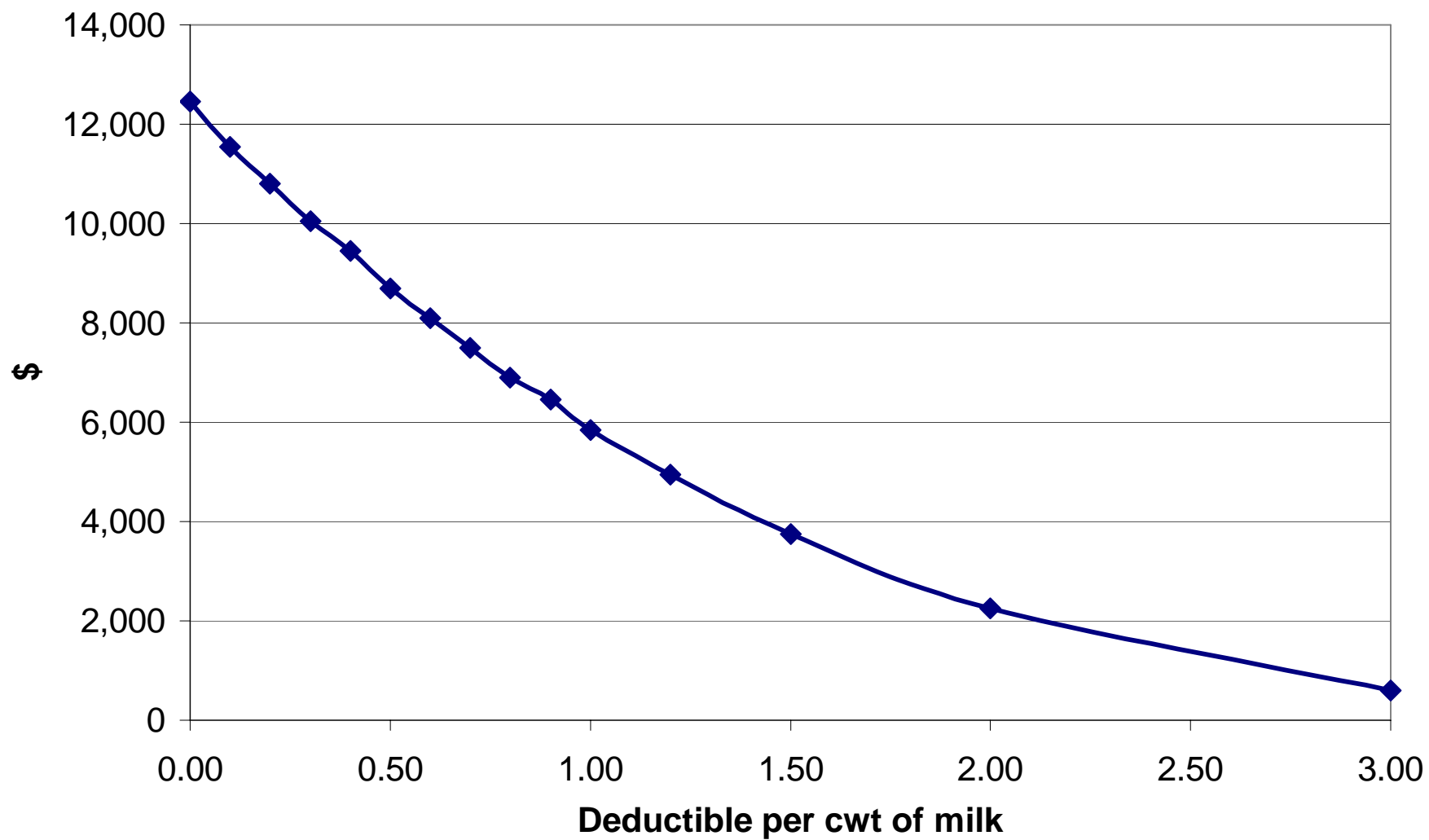
Projected Margin for July 2007 Sales Date



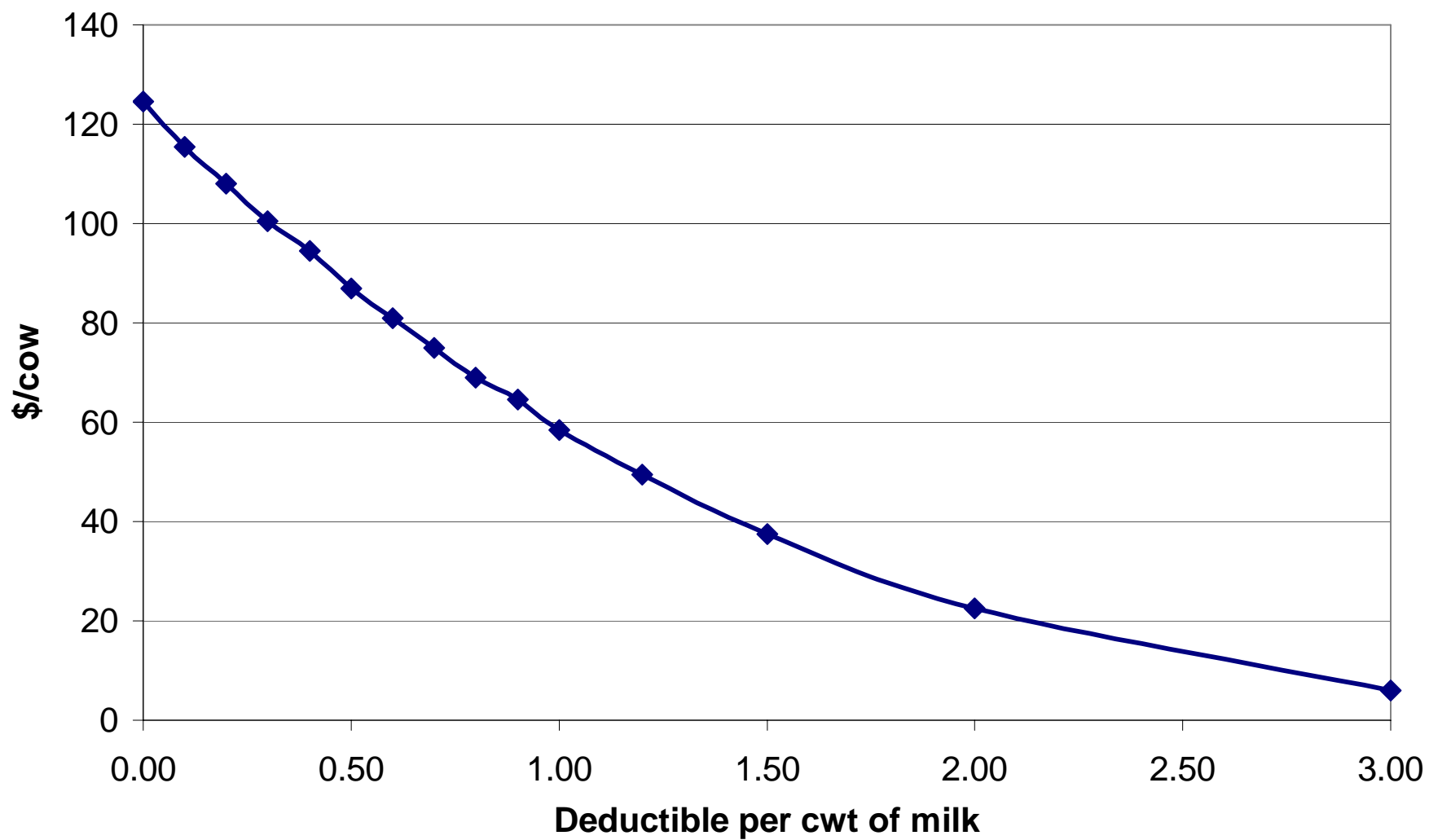
Premium When All Milk Insured Together



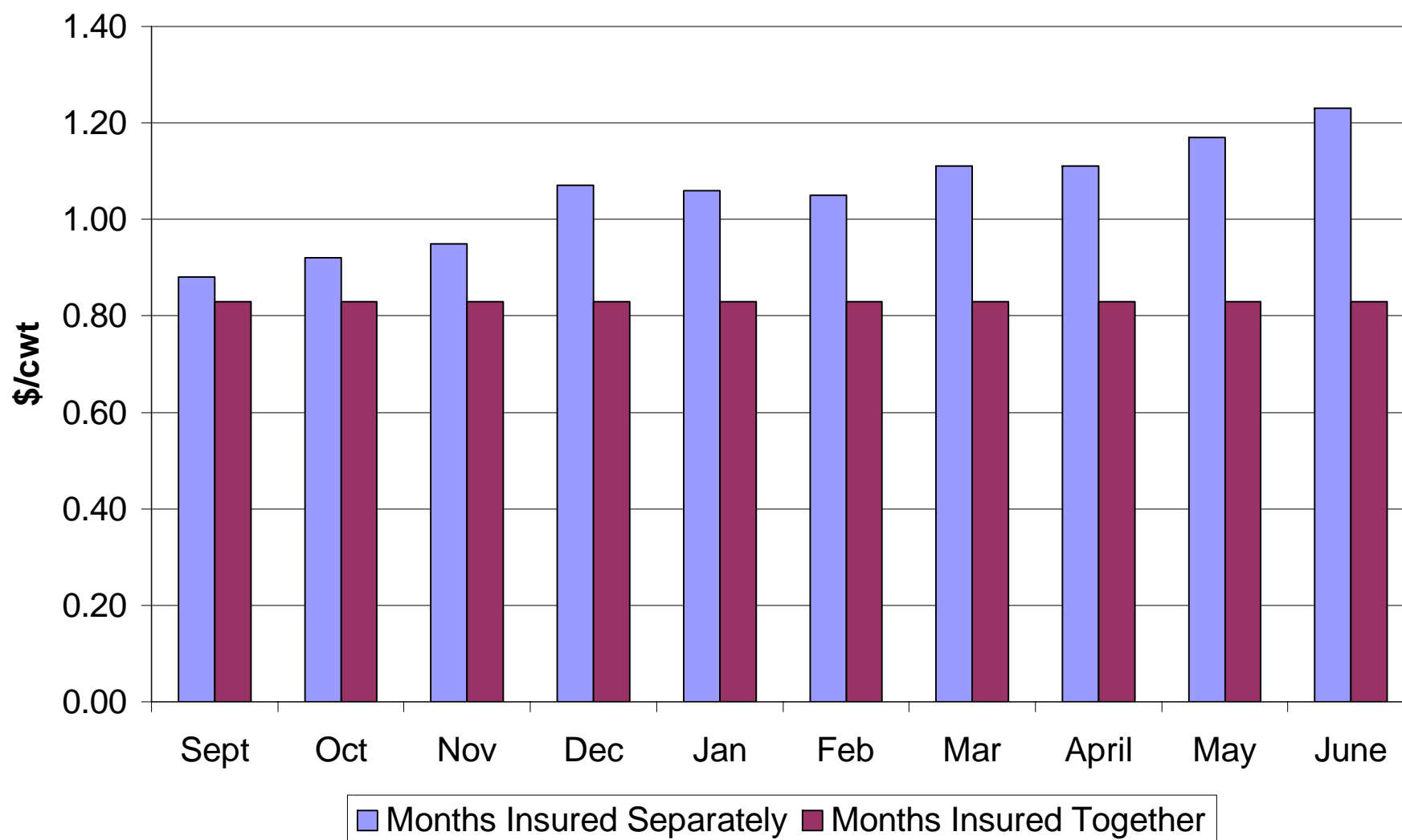
Premium When All Milk Insured Together



Premium When All Milk Insured Together



Effect on Premium of Insuring Month by Month



Impact on Premium of Price Volatility (0 Deductible, Months Insured Together)

